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Impact of FMD Outbreaks in Korea/Japan on Japan's Pork Market and Trade (No. 1) 2000

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Report Highlights:

Korea and Japan confirmed outbreaks of foot-and-mouth disease (FMD) in early April 2000. The outbreak jeopardizes Korea's annual \$400 million in pork exports to Japan. As a result, a 57,000 MT supply shortfall is forecast in CY 2000 in Japan with strong demand for U.S. chilled pork, but U.S. pork will have less of an advantage competing for Japan's frozen business, which Korea mainly supplied. Additionally, the magnitude of additional U.S. chilled pork sales will hinge on meeting Japanese specifications. The coincidental FMD outbreak on Japan is expected to have a limited impact on the domestic pork market.

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TABLE OF CONTENTS

Executive Summary	1
At Least One Year of Import Ban on Korean Pork Anticipated Due to FMD Outbreak in Korea	1
GOJ's Import Ban to Devastate Korean Livestock Industry, By Losing USD 400 Million Pork Market	1
Import Ban Creates Roughly 57,000 MT Supply Gap in Japan's Total Pork Distribution in 2000, Solid Opportunity for U.S. Chilled, But Customized US Frozen Ham Is A Key for Attaining a Sizable Stake in the Frozen Market ...	2
Termination of Korean Pork Imports to Diminish Earlier SG Concern During April - June 2000	3
Presently, Limited Impact of Quarantine on Japan's Overall Domestic Pork Supply Anticipated	3
Japanese Pork Imports for Jan. - Feb. 2000	4

Executive Summary

Korean and Japanese authorities confirmed outbreaks of foot-and-mouth disease (FMD) in both countries in early April 2000. For Korea, the outbreak will jeopardize \$400 million in pork trade as the temporary import ban is due to be formalized and last at least one year or more. According to media reports, the ban could devastate Korea's livestock industry. For Japan, pork imports from Korea accounted for 13% of the country's pork imports in 1999. FAS/Japan estimates a 57,000 MT shortfall in Japan's pork supplies results from the termination of Korean pork imports since March this year. Regarding Japan's safeguard (SG) calculation in the first quarter of JFY 2000 (April - June), diversified supply sources and advance frozen stock purchases made by Japanese ham and sausage manufacturers in early 2000 will keep major supply fluctuations in check. During the remainder of 2000 strong Japanese demand is forecast for U.S. chilled pork, but U.S. pork will have less of an advantage competing for Japan's frozen ham part business, which Korea mainly supplied, due to the Japanese-style specifications and quality provided by the EU (Denmark), Canada, and Mexico. The coincidental FMD outbreak in Miyazaki Prefecture on Japan's southern island of Kyushu is expected to have a limited impact on the Japan's domestic pork supply and demand, assuming authorities are successful at confining the disease to the current quarantine area.

At Least One Year of Import Ban on Korean Pork Anticipated Due to FMD Outbreak in Korea

Three years after the massive FMD outbreak in Taiwan in 1997, the highly contagious virus of vesicular animal disease hit cattle in both Korea and Japan in late March. However, since hogs are also susceptible to the disease, GOJ announced a temporary import ban of all beef and pork meat and processed products from South Korea (ROK) shortly after the case had been reported to OIE (later confirmed on April 2) by the ROK. The GOJ also acknowledged a similar case to the OIE from Miyazaki prefecture around the same time, a major livestock producing prefecture in the Kyushu region of Japan. In Japan, a strict quarantine was imposed in the area of Miyazaki prefecture where sick feeder calves and beef cows tainted by FMD were found (confirmed as FMD on April 4).

Based on ROK's confirmation of FMD on April 2, it is anticipated to take at least one year for the country to earn FMD-free status and resume pork exports, assuming the outbreak is successfully confined by ROK. The GOJ is now in the process of delisting ROK as an FMD-free country to formalize the import ban.

GOJ's Import Ban to Devastate Korean Livestock Industry, By Losing USD 400 Million Pork Market

The FMD outbreak is expected to devastate Korean livestock producers and meat industry by stopping pork exports to Japan, a major source of export revenue for the Korean livestock industry. In 1999, Japan imported 80,499 MT (down 11%) of pork from South Korea, which generated about \$400 million in export revenue for the country. Korea's pork exports to Japan said to have accounted 90% of the country's total pork exports in 1999.

Of the above total, chilled pork comprised a 27% share at 21,725 MT. In recent years, the Korean meat industry has been shifting their marketing focus to supply more chilled table pork to Japan due to the close proximity and ability to fabricate meat in exactly the same cutting specifications as those of Japanese domestic pork. In 1999, Korean chilled pork rose 18% over the previous year. According to industry sources, chilled pork from Korea has mostly been distributed through wholesalers and medium scale retail chains in major cities of Kyushu (e.g. Fukuoka) and the Kansai

region (e.g. Osaka) after landing. They would not confirm if it has been sold a specific country origin label.

As for frozen pork, Korea was a major supplier of ham parts for processing. Frozen ham parts from Korea were mainly utilized for boneless ham and Chinese style meat loaf called "char-shuu" (rolled and boiled with some season spices and sauces). Those slices of char-shuu are often used as a topping for ramen noodle in Japan. In the retail sector, "char-shuu" pack (containing sliced char-shuu) is also one of the regular items in a processed meat section of the retail and HMR sectors. One of our trade contacts estimates as much as 60% (or about 35,000 MT) of frozen pork imported from Korea last year was frozen ham parts.

Import Ban Creates Roughly 57,000 MT Supply Gap in Japan's Total Pork Distribution in 2000, Solid Opportunity for U.S. Chilled, But Customized US Frozen Ham Is A Key for Attaining a Sizable Stake in the Frozen Market

According to the latest trade statistics, during Jan. - Feb this year, Japanese pork imports from Korea amounted to 11,566 MT on customs clearance basis, down 10% compared to the previous year period [chilled 3,120 MT (up 12%) and frozen 8,446 MT (down 27%)]. Note: Japan's pork imports for Jan. - Feb. period reached 114,461 MT, up 49%, with imports from Danmark skyrocketing to 173% or (43,025 MT) compared to the same period of the previous year (see table at the last page).

Based on the latest trend, post estimated Japan's annual pork imports from Korea could have reached 72,000 MT in 2000. Assuming a part of March imports are halted and 3,500 MT is entered (with the import certificate having slaughter date before 3/2), GOJ's import ban leaves a shortfall of 57,000MT of annual supplies to meet Japan's annual import demand for pork in 2000 (chilled: 18,000MT and frozen: 39,000 MT). The figure accounts roughly 10% of what post had forecast in the last semiannual for Japan's total pork import volume in 2000 (575,000 MT on Customs Clearance Basis).

Presently, there is no panic buying by Japanese meat industry or over reaction by Japanese consumers reported in relation to the events taking place in Korea and Japan. Local media here has been also acted coolly in reporting this case (mostly fact based reporting). Likewise, domestic wholesale pork carcass price jumped only at the time of initial reporting of the case, but now came down to 400 yens per kilo level in anticipation of some negative effects of the case may pose on the retail table pork consumption in Japan (largely owing to retailers' concern).

Several traders are concerned that frozen ham parts may become a little bit short supplied this year. If only talking for frozen ham parts, opportunities for U.S. may be limited unless they solve quality and specification problems (selecting parts without PSE and of having a desirable color and fabricating it to make in boneless part etc. One trader said the demand for ham in the U.S. is for bone-in ham, not boneless etc.). If there are any U.S. suppliers who can supply good quality frozen ham with reasonable price, they will get the business. EU (including Denmark, Netherlands, Ireland etc.), Canada and Mexico will be prime competitors for the U.S.

As for chilled, the anticipated gap in chilled pork supply will be filled by increased domestic supplies and imports from U.S., Canada, and Mexico. Though limited in volume, some are said to be seeking products from suppliers in Australia and Chile etc., who exhibited pork in FOODEX Japan in early March. In any case, Japanese traders here are confident in filling the above gap without going through major hustles (sudden price increases by suppliers etc.) experienced in time of FMD outbreaks in Taiwan.

Termination of Korean Pork Imports to Diminish Earlier SG Concern During April - June 2000

At the same time, though not certain, industry's concern for pork SG trigger during the first quarter JFY 2000 (April - June) has diminished by the import ban. Japanese meat industry reportedly has a comfortable position on the frozen stock at present. Advance purchases of frozen raw materials by ham and sausage manufacturers to build up stock levels for the final quarter of JFY 1999 (January - March 2000) early on this year has helped to alleviate the concern for immediate shortage of frozen raw material parts for the time being.

Presently, Limited Impact of Quarantine on Japan's Overall Domestic Pork Supply Anticipated

On the reported case of FMD in Miyazaki, the number of domestic pigs under the designated quarantine area in Miyazaki prefecture is estimated to be 588,070 head, which comprises about 6 percent of Japan's total swine population raised (The measure limits movements and shipments of live animals and meat within a 20 kilo and 50 kilo meter radius as follows; within a 20 kilo radius, movements of animals are prohibited and both slaughter facilities and animal auction markets are closed. Within 50 kilo radius, movements of live animals are restricted and shipments of live animals outside of the restricted area is prohibited. Animal auction markets are closed, but slaughter facilities are open. Animal meat from slaughtered animal cleared upon inspection can be shipped out from the restricted area for consumption.)

GOJ is closely monitoring the situation without resorting to vaccination treatment. Post will be hearing more updates on the Miyazaki-case from APHIS Tokyo. According to industry contacts, Japanese major retail buyers are concerned about the Miyazaki case and trying to make sure to avoid what they buy (meat) is not from Miyazaki origin, but the impact of the above quarantine on the overall domestic pork supply at present is expected to be limited. If the situation were to be contained as it stands today, no major negative impact on the domestic pork supply and consumption situation.

Japanese Pork Imports for Jan. - Feb. 2000

Period: JANUARY - February 2000						
Unit: Metric Ton (Customs Clearance Basis)						
	Chilled		Frozen		Total	
	2000	% chg.	2000	% chg.	2000	% chg.
	Jan./Feb.		Jan./Feb.		Jan./Feb.	
U.S.	17,453	21%	11,323	22%	28,776	21%
Denmark	53	199%	42,972	173%	43,025	173%
Canada	5,073	66%	9,131	20%	14,204	33%
Korea	3,120	12%	8,446	-27%	11,566	-19%
Mexico	1,435	102%	4,749	-4%	6,184	10%
Other	297		10,589		10,886	
TOTAL	27,431	29%	87,210	58%	114,641	50%
Source: Ministry of Finance (March 28, Livestock Daily)						